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Montana. Teachers'
Retirement System
Annual report
fiscal years ended
June 30

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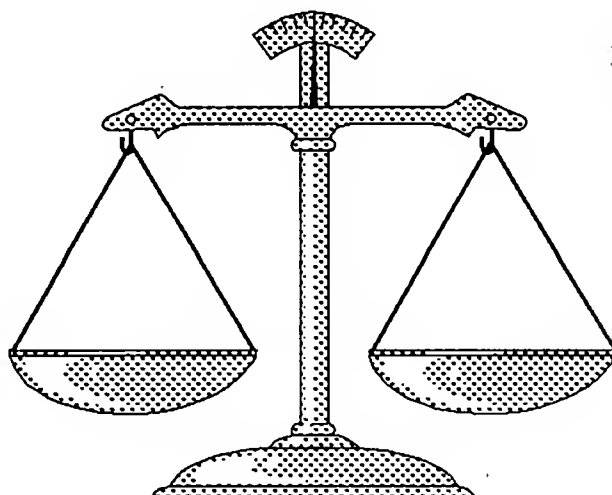
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Teachers' Retirement System

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ANNUAL REPORT

FISCAL YEARS ENDED JUNE 30, 1992 AND 1993

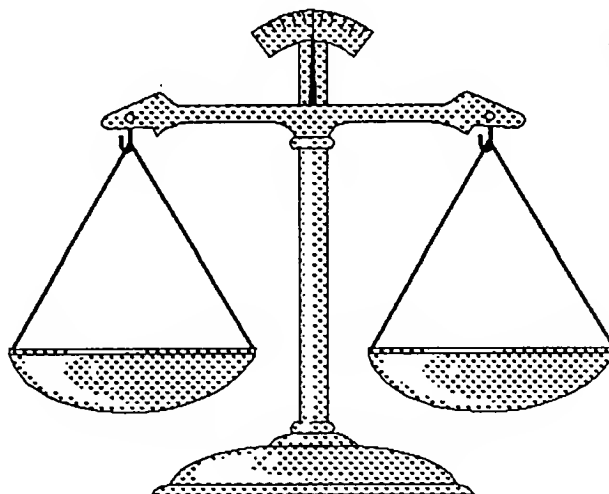
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ANNUAL REPORT

FISCAL YEARS ENDED JUNE 30, 1992 AND 1993

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**THE TEACHERS' RETIREMENT SYSTEM
DIRECTORS AND OFFICERS**

BOARD OF DIRECTORS

JAMES COWAN CHAIRMAN	07-01-92 to 07-01-96	P.O. Box 369 Seeley Lake, MT 59868
W. CRAIG BREWINGTON	07-01-90 to 07-01-94	Hellgate Elementary 2385 Flynn Lane Missoula, MT 59802
E. JOSEPH CROSS	07-01-91 to 07-01-95	2518 Augusta Lane Billings, MT 59102
JOHN U. KRANICK	07-01-89 to 07-01-93	116 River View C Great Falls, MT 59404
NANCY TRACKWELL	07-01-91 to 07-01-93	315 20th Avenue South Great Falls, MT 59405
NANCY KEENAN	Ex Officio	Superintendent of Public Instruction State Capitol Helena, MT 59620

ADMINISTRATIVE OFFICERS

DAVID L. SENN	Administrator
GARY WARREN	Assistant Administrator

PROFESSIONAL CONSULTANTS

MILLIMAN & ROBERTSON, INC.	Actuaries & Consultants Seattle, WA 98101
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FINANCIAL SECTION



BALANCE SHEET

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE**

NOTES TO FINANCIAL STATEMENTS

TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET
AS OF JUNE 30, 1993 AND 1992

	<u>1993</u>	<u>1992</u>
ASSETS		
Current Assets:		
Cash	\$ 1,817,924	\$ 7,243,984
Account	9,884,218	5,570,270
Interest Receivable	<u>12,621,933</u>	<u>13,120,143</u>
Total Current Assets	24,324,075	25,934,397
Investments (Note A):		
Mortgages	\$ 45,120,945	\$ 48,889,540
Securities	457,681,214	476,286,062
Common Stock	248,338,143	194,236,158
Other Investments	150,425,416	92,933,025
Land and Buildings	193,844	193,844
Less: Accum. Depreciation	<u>(87,191)</u>	<u>(83,429)</u>
Total Investments	901,672,371	812,455,200
Other Assets:		
Intangible Assets	\$ 56,160	\$ 1,491
Equipment	143,849	79,411
Less: Accum. Depreciation	(63,855)	(49,539)
Deferred Losses	<u>(1,042,136)</u>	<u>962,822</u>
Total Other Assets	<u>(905,982)</u>	<u>994,185</u>
TOTAL ASSETS	\$925,090,464	\$839,383,782
LIABILITIES		
Accounts Payable	\$ 641,736	\$ 174,025
Accrued Expenditures	18,789	45,679
Payroll Clearing	3,037	791
Accountability for Adv. (Note A)	196,639	125,895
Compensated Absences (Note A)	22,830	17,275
Property Held in Trust	(577)	(518)
Long Term Debts Payable	<u>76,915</u>	<u>0</u>
TOTAL LIABILITIES	<u>959,369</u>	<u>363,147</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$924,131,095</u>	<u>\$839,020,635</u>

The accompanying notes are an integral part
of these financial statements.

**TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET
AS OF JUNE 30, 1993 AND 1992**

	<u>1993</u>	<u>1992</u>
FUND BALANCE (Note C)		
Pension Benefit Obligation (PBO):		
Retirees and beneficiaries currently receiving benefits	\$ 634,549,416	\$ 590,740,128
Terminated employees not yet receiving benefits	33,778,152	31,276,067
Current employees:		
Accumulated employee contributions	439,208,159	407,440,993
Employer-financed:		
Vested	424,421,945	400,122,501
Nonvested	<u>21,111,397</u>	<u>19,902,705</u>
Total PBO	\$1,553,069,069	\$1,449,482,394
Unfunded PBO	<u>(628,937,974)</u>	<u>(610,461,759)</u>
TOTAL FUND BALANCE	<u>\$ 924,131,095</u>	<u>\$ 839,020,635</u>

The accompanying notes are an integral part
of these financial statements.

TEACHERS' RETIREMENT SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1993 AND 1992

	<u>1993</u>	<u>1992</u>
OPERATING REVENUES		
Member Contributions	\$ 37,249,490	\$ 34,677,331
Employer Contributions	38,088,280	35,759,120
Investment Earnings	<u>78,375,511</u>	<u>70,680,973</u>
Total Operating Revenues	\$153,713,281	\$141,117,424
OPERATING EXPENSES		
Benefit Payments	\$ 66,012,320	\$ 60,763,611
Withdrawals	3,971,610	3,307,312
Administrative Expense (Note F)	<u>769,820</u>	<u>865,335</u>
Total Operating Expenses	\$ 70,753,750	\$ 64,936,258
OPERATING TRANSFERS IN		
Public Employees Retirement System	112,520	87,059
Income Transfers (Note B)	<u>1,586,710</u>	<u>1,432,670</u>
Total Transfers In	<u>1,699,230</u>	<u>1,519,729</u>
OPERATING INCOME	\$ 84,658,761	\$ 77,700,895
BEGINNING FUND BALANCE	839,019,471	761,462,699
Adjustments to Fund Balance	186	(14,071)
Prior Year Adjustments	<u>452,677</u>	<u>(128,888)</u>
ENDING FUND BALANCE	<u>\$924,131,095</u>	<u>\$839,020,635</u>

The accompanying notes are an integral part
of these financial statements

TEACHERS' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1993 AND 1992

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Teachers' Retirement System maintains its accounts on the full accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Valuation of Investments

Short-term investments and state securities are recorded at cost. Federal and corporate securities are stated at par value decreased by unamortized discounts amounting to \$163,310,918 in fiscal year 1993 and \$83,914,499 in fiscal year 1992. Mortgages were decreased by unaccumulated mortgage discount of \$55,878 in fiscal year 1993 and \$74,178 in fiscal year 1992.

The market value of the various investments of at June 30, 1993, was as follows:

Montana Common Stock Pool		\$306,260,991
Montana Convertible Pool		22,852,832
Short-Term Investment Pool		49,752,200
Other Common Stock		121,500
Securities:		
U.S. Government	\$134,480,539	
Corporate Bonds	<u>512,765,628</u>	
Securities Subtotal		647,246,167
Other Investments		14,074,651
Montana Mortgages		45,120,945
Land and Buildings		<u>106,653</u>
		<u>\$1,085,535,939</u>

Gains and Losses on Bond Swaps

The deferral and amortization method was used for accounting for gains and losses on bond swaps. The unamortized deferred gains or losses are netted against the investment account and written off over the life of either the bond sold or acquired, whichever is less.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for division personnel at June 30, 1993.

Accountability for Advances

Accountability for advances represents the liability associated with amounts received as an advance from other accounting entities or other governments at June 30, 1993.

The TRS financial statements do not include the Minnie Fullam (MF) Fund, a legacy fund that is administered by the Teachers' Retirement System. The MF financial statements are presented below:

**Minnie Fullam Fund
Statement of Revenues, Expenses, and
Changes In Fund Balance
For the Fiscal Years Ended June 30, 1993 and 1992**

Investment Revenue	\$ 2,664	\$ 2,820
Beginning Fund Balance	44,233	41,413
Ending Fund Balance	<u>\$46,897</u>	<u>\$44,233</u>

**Minnie Fullam Fund
Balance Sheet
As of June 30, 1993 and 1992**

Assets:		
Cash	\$ 533	\$ 269
MT Common Stock Pool	22,064	22,064
Short Term Investments	<u>24,300</u>	<u>21,900</u>
Total Assets	<u>\$46,897</u>	<u>\$44,233</u>
 Total Fund Balance	 <u>\$46,897</u>	 <u>\$44,233</u>

NOTE B. DESCRIPTION OF PLAN

The Teachers' Retirement Board is the governing body of a mandatory multiple-employer, cost-sharing system which provides retirement services to all persons in Montana employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the university system. The System was established by the State of Montana in 1937 and is governed by Title 19, Chapter 20, of the Montana Code Annotated.

At June 30, 1993, the number and type of employers participating in the System was as follows:

Local School Districts	412
Community Colleges	3
University System Units	6
State Agencies	<u>11</u>
Total	<u>432</u>

At June 30, 1993, the System membership consisted of the following:

Retirees and Beneficiaries	
Currently Receiving Benefits	6,899
Terminated Employees Entitled to	
But Not Yet Receiving Benefits	6,546
Current Members:	
Vested	10,855
Nonvested	<u>6,356</u>
Total Membership	<u>30,656</u>

The pension plan provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to 1/60 times creditable service years times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

Effective January 1, 1988, university system employees eligible to participate in the Teachers' Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. As of July 1, 1993, a total of 847 eligible university system employees have elected to participate in the Optional Retirement Plan. Effective July 1, 1993, membership in the Optional Retirement Plan is mandatory for new employees to the university system unless they are already a member of the Teachers' Retirement System.

Effective January 1, 1990, certain members of the Teachers' Retirement System are eligible to receive a post retirement adjustment. The adjustment is funded by annual interest earnings in excess of the required 8%. To be eligible, a retiree or beneficiary must be at least 55 years of age or be receiving a disability or survivor allowance and have been receiving a monthly benefit for 24 months preceding June 30 each year. In fiscal year 1993, \$2,390,453 was disbursed to eligible recipients.

Effective calendar year 1991, certain members of the Teachers' Retirement System, who are also Montana residents, are eligible to receive an annual adjustment to offset the state taxation of retired benefits. The adjustment is funded through a transfer from the General Fund. During fiscal year 1993, \$1,586,710 was distributed to eligible recipients.

During fiscal year 1992, TRS solicited proposals for a new data processing system. Sixty monthly payments of \$5,092.08 began on November 29, 1992 and conclude October 29, 1997 for a total debt of \$305,524.80 which includes principle and interest of \$271,279.34 and \$34,245.46 respectively.



NOTE C. FUNDING STATUS AND PROGRESS

The pension benefit obligation is a standardized disclosure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1992. Significant actuarial assumptions at June 30, 1992 include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, and (b) projected salary increases of 6.5% due to inflation. An actuarial valuation of the liabilities of the System as of June 30, 1993 was not performed; instead, the pension benefit obligation as of June 30, 1993 was estimated on the actuarial valuation prepared as of June 30, 1992.

At June 30, 1993, the unfunded pension benefit obligation was as follows:

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits	\$ 634,549,416
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Terminated members entitled to but not yet receiving benefits	33,778,152
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Current employees:

Accumulated employee contributions	439,208,159
Employer-financed vested	424,421,945
Employer-financed nonvested	<u>21,111,397</u>

Total Pension Benefit Obligation	\$1,553,069,069
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Net Assets Available for Benefits at Cost (Market Value 1993 - \$1,107,994,664)	<u>924,131,095</u>
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Unfunded Pension Benefit Obligation	<u><u>\$ 628,937,974</u></u>
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NOTE D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The TRS funding policy provides for periodic employer and employee contributions at rates specified by State Law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in biennial actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll. The actuarial valuation prepared as of July 1, 1992, the most recent valuation date, indicates the statutory rate was sufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age normal method over 34.9 years. During fiscal years 1993 and 1992, no changes were made in the method used to calculate or establish contribution requirements, nor were there any changes in the law affecting benefits.

Actual contributions made to the System during the fiscal year ending June 30, 1993, were as follows:

Covered payroll	\$445,390,838
Employer contributions	\$ 38,088,280
--% of covered payroll(R)	7.459%
--% of covered payroll(A)	8.552%
Employee contributions	\$ 37,249,490
--% of covered payroll(R)	7.044%
--% of covered payroll(A)	8.363%

(R)Contributions required by statute.

(A)Actual contributions.

Employer contributions include transfers from the Public Employees' Retirement System.



NOTE E. HISTORICAL TREND INFORMATION

ANALYSIS OF FUNDING PROGRESS

	<u>As of June 30</u>			
	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Net assets available for benefits as a % of PBO	59.5%	57.9%	57.7%	57.1%
Unfunded PBO as a % of annual covered payroll	141.2%	143.6%	138.2%	130.6%
Employer contributions as a % of annual covered payroll	8.552%	8.411%	8.231%	7.734%

NOTE F. ADMINISTRATIVE EXPENSES

Administrative expenses for the years ended June 30, 1993 and 1992, are outlined below:

	<u>1993</u>	<u>1992</u>
Personal Services:		
Salaries	\$248,596	\$241,886
Other compensation	2,750	2,500
Employee benefits	<u>64,075</u>	<u>58,965</u>
Total Personal Services	\$315,421	\$303,351
Operating Expenses:		
Contracted services	\$111,856	\$252,574
Supplies and materials	18,046	15,559
Communications	35,263	39,423
Travel	11,176	9,225
Rent	44,194	43,812
Repair and maintenance	5,934	6,952
Other expenses	2,544	4,386
Equipment	242	226
Intangible Assets	74	931
Long Term Debt Expense	8,194	0
Compensated Absence	5,555	(5,352)
Depreciation	18,171	11,647
Amortization	<u>4,495</u>	<u>1,681</u>
Total Operating Expense	\$265,744	\$381,064
Investment Expense	<u>188,655</u>	<u>180,920</u>
Total Administrative Expense	<u>\$769,820</u>	<u>\$865,355</u>



STATISTICAL SECTION

REVENUES BY SOURCE

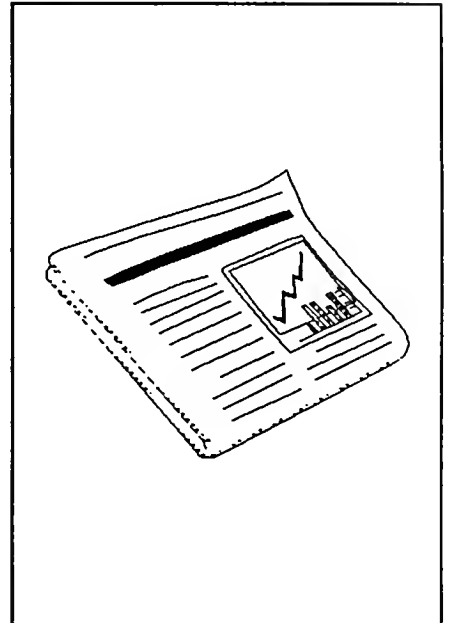
EXPENSES BY TYPE

CONTRIBUTION RATES

ACTIVE MEMBERSHIP

RETIRED MEMBERSHIP

LOCATION OF BENEFIT RECIPIENTS





Revenues By Source

<u>Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Other</u>	<u>Total</u>
1983 - 1984	\$25,018,366	\$24,103,285	\$30,338,736		\$79,460,387
1984 - 1985	26,630,671	26,104,746	35,357,881		88,093,298
1985 - 1986	27,603,165	27,322,124	45,404,420		100,329,709
1986 - 1987	28,883,825	28,401,842	48,820,651		106,106,318
1987 - 1988	28,800,383	28,324,488	51,877,012		109,001,883
1988 - 1989	28,995,301	28,657,283	58,742,650		116,395,234
1989 - 1990	30,549,466	30,646,428	63,748,295		124,944,891
1990 - 1991	32,611,152	33,274,827	67,033,563		132,919,542
1991 - 1992	34,677,311	35,759,120	70,680,973		141,117,424
1992 - 1993	37,249,490	38,088,280	78,375,511		153,713,281

Expenses By Type

<u>Year</u>	<u>Benefit Payments</u>	<u>Withdrawals</u>	<u>Admin. Expenses (1)</u>	<u>Investment Expenses</u>	<u>Other (2)</u>	<u>Total</u>
1983 - 1984	\$28,791,213	\$4,230,672	\$489,981	\$100,580	\$493,322	\$34,105,768
1984 - 1985	32,498,499	4,812,090	334,023	104,330		37,748,942
1985 - 1986	37,633,013	4,647,911	378,827	133,979		42,793,730
1986 - 1987	40,292,222	4,807,517	442,966	125,607		45,668,312
1987 - 1988	44,001,287	6,994,554	443,786	310,975		51,750,602
1988 - 1989	47,214,491	5,213,596	474,560	179,743		53,082,390
1989 - 1990	51,033,464	8,561,498	520,926	166,134		60,282,022
1990 - 1991	54,869,861	4,243,421	485,918	191,692		59,790,892
1991 - 1992	60,763,611	3,307,312	684,415	180,920		64,936,258
1992 - 1993	66,012,320	3,971,610	581,165	188,655		70,753,750

(1) Includes depreciation after fiscal year 1984

(2) Includes prior year adjustments and depreciation through 1984



Teachers' Retirement System

Contribution Rates

EMPLOYEE

1937 - 1973	5.000%
1973 - 1975	5.125%
1975 - 1977	6.125%
1977 - 1983	6.187%
1983 - 1993	7.044%

EMPLOYER

1937 - 1945	NONE
1945 - 1959	3.750%
1959 - 1969	4.000%
1969 - 1971	4.500%
1971 - 1975	5.125%
1975 - 1977	6.250%
1977 - 1981	6.312%
1981 - 09/30/81	6.432%
10/01/81 - 06/30/83	6.463%
1983 - 1985	7.320%
1985 - 1989	7.428%
1989 - 1993	7.459%
1994 -	7.470%

Unless otherwise noted, contribution rate changes occur on July 1.

Teachers' Retirement System

Membership

<u>Period Ended</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Inactive Non-vested</u>	<u>Total</u>
June 30, 1984	15,214	748	2,148	18,110
June 30, 1985	15,579	715	2,245	18,238
June 30, 1986	15,951	695	2,362	19,008
June 30, 1987	15,084	964	3,090	19,138
June 30, 1988	15,041	1,025	3,444	19,510
June 30, 1989	15,087	1,074	3,765	19,926
June 30, 1990	15,702	1,137	4,080	20,919
June 30, 1991	16,281	1,102	4,469	21,852
June 30, 1992	16,643	1,167	4,890	22,700
June 30, 1993	17,211	1,171	5,375	23,757

Retired Members and Benefit Recipients

<u>Period Ended</u>	<u>Retirement</u>	<u>Survivors</u>	<u>Disability</u>	<u>Child Benefits</u>	<u>Total</u>
June 30, 1984	4,653	294	227	46	5,220
June 30, 1985	4,936	302	235	51	5,524
June 30, 1986	5,158	311	239	58	5,766
June 30, 1987	5,295	311	245	58	5,909
June 30, 1988	5,475	320	249	59	6,103
June 30, 1989	5,743	332	255	59	6,389
June 30, 1990	5,903	334	265	56	6,558
June 30, 1991	5,882	339	261	46	6,528
June 30, 1992	6,042	343	263	47	6,695
June 30, 1993	6,227	355	267	50	6,899

LOCATION OF BENEFIT RECIPIENTS

Alabama	6	New Jersey	1
Alaska	21	New Mexico	26
Arizona	150	New York	16
Arkansas	9	North Carolina	8
California	166	North Dakota	76
Colorado	60	Ohio	14
Connecticut	5	Oklahoma	11
Florida	29	Oregon	125
Georgia	6	Pennsylvania	11
Hawaii	4	South Carolina	4
Idaho	86	South Dakota	25
Illinois	9	Tennessee	9
Indiana	7	Texas	35
Iowa	13	Utah	37
Kansas	12	Vermont	1
Kentucky	1	Virginia	9
Louisiana	2	Washington	267
Maine	6	West Virginia	2
Maryland	5	Wisconsin	25
Massachusetts	4	Wyoming	51
Michigan	10	APO AE	1
Minnesota	63	Australia	1
Mississippi	1	Canada	12
Missouri	18	Denmark	1
Montana	5,385	Puerto Rico	1
Nebraska	8	Scotland	1
Nevada	41	Thailand	1
New Hampshire	1	<u>TOTAL</u>	<u>6,899</u>

